



The G20

- from Seoul to Paris and beyond -

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Introduction

- **G20 at a crossroad**
- **Disaccord in numerous issues despite positive evaluation**
 - . Stimulus vs. fiscal consolidation
 - . Solution to global imbalances: currency war
 - . Reform of international financial institutions
- **Not much implementation of actions and commitments**
 - . Even though there are some agreements, still little implementation actions and governments' commitments
- **Challenges of its sustainability in the long run**
 - . G20 has shown big achievements in addressing the global crisis
 - . But further role to derive continued cooperation and to undertake (or enforce) appropriate actions has been weak

Introduction

- **Importance of “from Seoul to Paris”**
- **Cornerstone for the sustainability of the G20**
 - . Many sensitive issues handed over to the Seoul Summit
 - .. The issue of exchange rate adjustment will be a focus at the Seoul Meeting
 - .. Finalization of quota share adjustment of IMF has been handed over to the Seoul Summit
 - . Expected that a comprehensive action plan including country-specific commitments would be announced at the Seoul Summit
 - . Following through and producing an action plan at Seoul and Paris is a key to the success of the G20

Introduction

- **Importance of “from Seoul to Paris” (cont’d)**
- **Chance to enhance the G20’s credibility**
 - . If the G20 can derive a consensus on the issues currently at impasse and in big conflict, its credibility would be much enhanced as the premier forum for international economic cooperation
 - . Any sensitive issues such as DDA or exchange rate adjustment should be tackled at the G20: even though a tangible outcome would be impossible at the Seoul Summit, the G20 must show efforts to face and resolve the issues at the Paris Summit for the

Global Economy and the Framework

- **Progress**
 - **Advanced countries committed to follow group based policy options**
 - **These measures need to be tailored to individual country circumstances**

Group based policy options

Group	Policy Options
Advanced countries	Communicating “growth friendly” fiscal consolidation plans at least by halving deficits by 2013 and stabilizing or reducing government debt-to-GDP ratios by 2016
Advanced countries with external deficit	Measures to stimulate private savings and enhance export competitiveness
Advanced countries with external surplus	Measures to support increased domestic demand
Emerging countries with external surplus	Reforms to strengthen social safety nets, increase infrastructure, and enhance exchange rate flexibility
All G20 countries	Structural reforms, avoiding new protectionist measures, completing Doha round

Global Economy and the Framework

- **Global economy**
 - **Overall the outlook is positive**
 - . Double-dip: less likely
 - **But still the uncertainty surrounding the global economy remains**
 - . It remains fragile, uneven, and vulnerable to reversal
 - **Two most serious challenges**
 - . Public finance problem
 - . Global imbalances between surplus and deficit countries

Global Economy and the Framework

- **Public finance**
 - **Recent fiscal crises in Europe highlight the importance of sustainable public finances**
 - . The market perceives this problem as the biggest threat to the world economy
 - . Need to deliver clear and credible plans of fiscal consolidation for fiscal sustainability
 - **Debate: austerity vs. stimulus**
 - . Austerity: the failure to implement fiscal consolidation would undermine confidence and hamper growth
 - . Stimulus: synchronized fiscal tightening could significantly reduce aggregate global demand

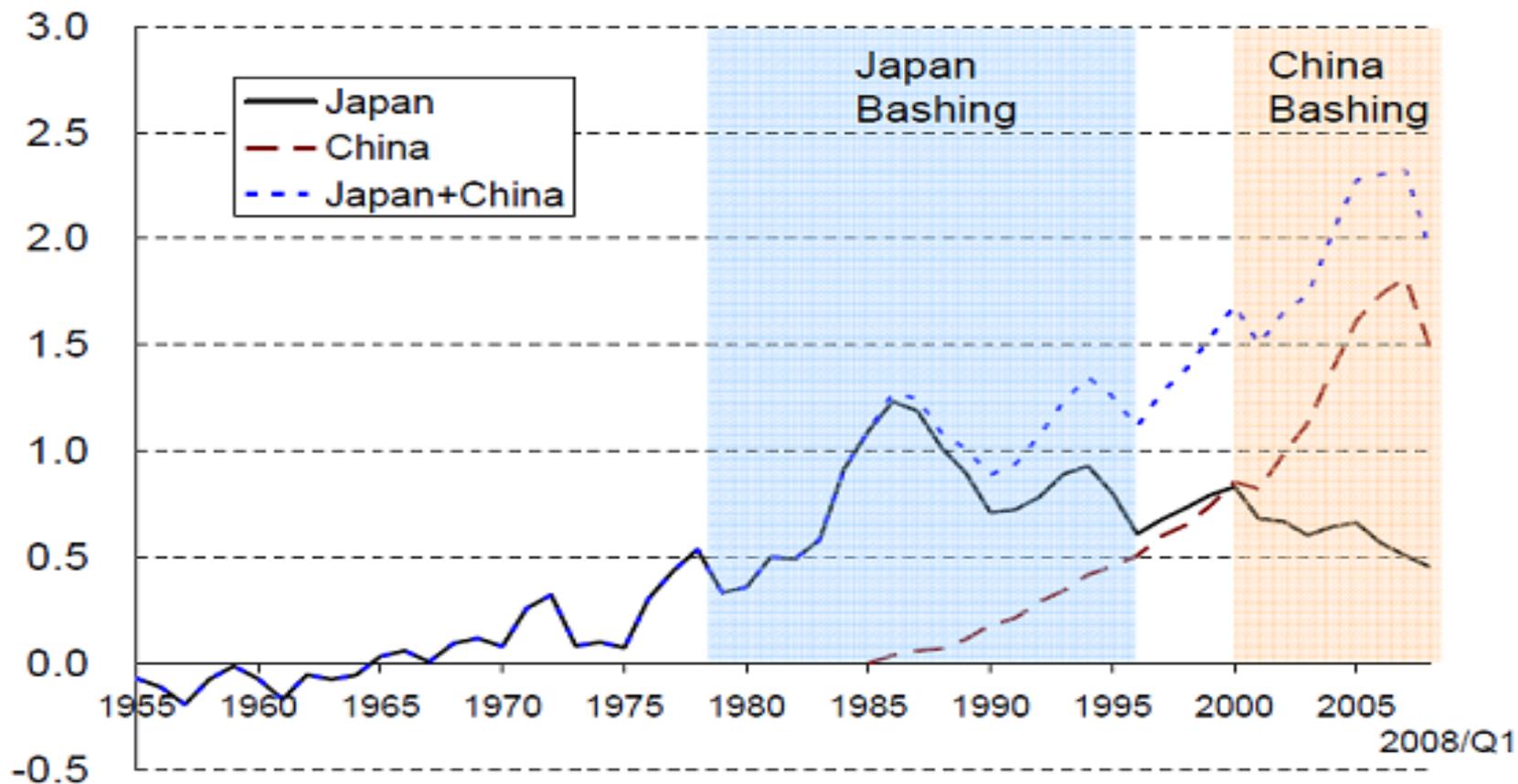
Global Economy and the Framework

- **Global imbalances**
- **Global imbalances have reduced since the crisis, but are expected to widen again**
 - . Global imbalances are one of fundamental causes of the crisis
 - . Unless these imbalances are effectively addressed, true recovery would not be secured
- **Debate: U.S. vs. East Asia**
 - . U.S.: the global savings glut fueled an unsustainable housing and credit boom; thus East Asian countries (in particular China) need to need to adjust by expanding consumption and appreciating their currencies

Global Economy and the Framework

- **Global imbalances (cont'd)**
 - **Currency war**
 - **Two views on accumulation of foreign reserves in Asia**
 - . Precautionary motives: foreign reserves have accumulated as self-insurance against crises → no manipulation of FX rate
 - . Mercantilist motives: foreign reserves accumulations were triggered by concerns about export competitiveness → manipulation of FX rate by central bank intervention
 - **Empirical results support precautionary motives rather than mercantilist motives**

Asia Bashing? : Bilateral Trade Balance of China and Japan vs. U.S.



Source: IMF; requoted from McKinnon and Schnabl (2009)

Financial Issues

- financial regulatory reform -

- **Progress**

- **Capital and liquidity**

- . The Group of Governors and Heads of Supervision at the BCBS announced new global minimum capital requirements
- . The minimum requirement for common equity will be raised from the current 2% level to 4.5%. This will be phased in by 1 January 2015
- . The Tier I capital requirement will increase from 4% to 6% over the same period”
- . Besides this minimum requirement, banks will be required to hold a capital conservation buffer of 2.5% to withstand future periods of stress and a countercyclical buffer within a range of 0% - 2.5% of common equity or other fully loss absorbing capital will be

Financial Issues

- financial regulatory reform -

- **Progress (cont'd)**

- **Systemically important financial institutions (SIFIs)**

- . Many difficulties in making progress

- . The Toronto Summit Declaration asked the FSB (Financial Stability

- Board) to make policy recommendations for the Seoul Summit

- **Two difficulties in handling SIFIs problem**

- . Identification of SIFIs: size, risk exposure, interconnectedness

- . Prevention of regulatory arbitrage

Financial Issues

- financial regulatory reform -

- **Progress (cont'd)**

- **Market infrastructure**

- . At the Toronto summit, the G20 leaders pledged to the international society to work in a coordinated manner to accelerate the implementation of the reform measures in the agreed areas
- . OTC derivatives regulation: all standardized OTC derivative contracts should be traded on exchanges or electronic trading platforms and cleared through central counterparties
- . Reform of compensation practices
- . Improvement of global accounting standards
- . Tightening scrutiny of hedge funds and crediting rating agency

Financial Issues

- reform of international financial institutions -

- **Progress**

- **The G20 contributed to the mobilization of \$985 billion in critical financing and over \$250 billion in trade finance for IFIs**

- **Voting power**

- . Agreed to shift in IMF's quota share at least 5% from over-represented to under-represented countries
- . Completed 3.13% shift of World Bank's voting power from the advanced to the developing and transition countries

- **Governance**

- . Agreed to enhance the governance structure of IFIs through an open, transparent and merit-based selection processes for the

Financial Issues

- global safety net -

- **Progress**

- **At Toronto Summit**

- . Acknowledged the need for national, regional and international efforts to handle the volatility of capital flows:
- . Tasked finance ministers and central bank governors to prepare policy options to strengthen global financial safety nets for the Seoul Summit
- . IMF enhanced the Flexible Credit Line (FCL) and established the Precautionary Credit Line (PCL) in August

Trade and Development

- trade -

- **Little progress in trade**

- **DDA negotiations are still at an impasse**

- . At the Toronto Summit, the standstill commitment was renewed
 - for a further three years to 2013
- . Asked OECD, ILO, WB and WTO to report the benefits of trade
 - liberalization for employment and growth
- . Reiterate the G20's support for bringing the WTO Doha Development round to a balanced and ambitious conclusion as
 - soon as possible
- . Asked the WTO representatives to report on the progress of DDA negotiations at the Seoul Summit

Trade and Development

- development -

- **Progress**

- **At the Toronto Summit,**

- . Agreed to establish a Working Group on Development and mandated it to elaborate a development agenda and multi-year action plans to be adopted at the Seoul Summit

- **Key outcomes of the WG on Development**

- . Agreed to focus on economic growth and resilience, in particular investment in infrastructure, trade, and human resource development
- . Agreed to set guide principles to select deliverable development action plans
- . Agreed to establish the role of IOs and MDBs in elaborating

Differentiating the G20 and the G8 Approaches to Development

Principle	G20 approach	G8 approach
Strong, sustainable and balanced growth	Focus on growth	Focus on welfare/poverty
	Global structural transformation	Country structural adjustment
	Systemic risk management	Mitigate impact of shocks
Need for collective action	Coherent policies towards development	Focus on aid
	Model good practice	Define homogeneous standards
	Reduce free-riding through dialogue and common understanding	Enforce global rules
Tangible results	Implementation focus (templates/scorecards)	Announcements focus
	Common accountability framework	<i>Ad hoc</i> accountability mechanisms
	Significant legacy agenda	Fresh agenda each meeting
Legitimacy and Relevance to others	Global economic governance	G8 rules
	Middle income and low income development issues	Low income focus, especially Africa
	Involve regional organizations	Invite specific countries

Source: Kharas (2010)

Key Pillars

Pillars	Elements
Infrastructure	<ul style="list-style-type: none"> -Data & Analysis -Private Participation in Infrastructure (PPI) -Regional (Cross-Border) Infrastructure
Human Resource Development	<ul style="list-style-type: none"> -Education Quality -Technical Education and Vocation Training
Trade	<ul style="list-style-type: none"> -Aid for Trade -Duty Free / Quota Free
Private Investment & Job Creation	<ul style="list-style-type: none"> -Ease of Doing Business
Financial Inclusion	<ul style="list-style-type: none"> -Financing for Job Creation
Growth with Resilience & Food Security	<ul style="list-style-type: none"> -Insurance and Futures Markets -Agricultural Development
Governance	<ul style="list-style-type: none"> -Anti-Corruption -Tax Reform
Knowledge Sharing	<ul style="list-style-type: none"> -Knowledge Sharing Platforms -South-South and Triangular Partnerships

Source: Lim (2010)

Key Agendas for the Seoul Summit

- **Framework for Strong, Sustainable and balance growth**
 - **Provide a comprehensive country-specific action plan**
 - **G20 leaders will address the problem of global imbalances**
 - **Some countries may want to focus on exchange rate adjustment as a silver bullet to resolve the global imbalance problem**
 - **More balanced and comprehensive discussions will be needed**

Key Agendas for the Seoul Summit

- **Financial Regulatory Reform**
 - **Establish a new framework by successfully completing key tasks of financial regulatory reform**
 - **Decide on a new regime for bank capital and liquidity requirements**
 - **Provide concrete policy measures for SIFIs**
 - **Agree on measures for the stronger financial market infrastructure in dealing with OTC derivatives, CRAs, H/F**

Key Agendas for the Seoul Summit

- **IMF reform**
 - **Complete at least a 5% shift of the IMF quota**
 - **Make decision to enhance IMF Board's effectiveness**
by adjusting size and composition of the Board
 - **Develop ideas to expand the IMF's Governors' involvement**
 - **Agree on ways to diversify IMF's staff and on a new selection process for heads and senior leadership of IFIs**

Key Agendas for the Seoul Summit

- **Trade**
 - **Receive the report from the OECD, ILO, WB and on the benefits of trade liberalization for employment and growth**
 - **Receive the report from DDA representatives on the progress of DDA negotiations**
 - **May agree on a concrete commitment with a proper time schedule to break the impasse of the DDA negotiations**

Key Agendas for the Seoul Summit

- **Global Financial Safety Nets**
 - **Consider concrete measures to strengthen global financial safety nets**
 - **Encourage countries to rely less on “self-insurance”**
against sudden capital flight by institutionalizing foreign liquidity supply mechanism
 - **Bilateral currency swap arrangements, regional approach such as CMI, IMF’s precautionary lendings**
such as FCL and PCL

Key Agendas for the Seoul Summit

- **Development: Why it is important?**
 - **Poverty in developing countries has become more severe**
 - **Developing countries were gravely affected by the financial crisis**
 - **Food and energy price volatility further burdened the poor**
 - **The WB estimated that an additional 64 million will cross the poverty line by the end of 2010**

Key Agendas for the Seoul Summit

- **Development: Why it is on the G20 Agenda?**
 - **Benefits of the G20's policy coordination must be shared with others**
 - **Closely related to the framework for strong, sustainable and balanced growth agreed by the Leaders at the Pittsburgh Summit**
 - **Addressing development strengthens G20 legitimacy and leadership**

Key Agendas for the Seoul Summit

- **Development: Economic growth oriented approach**
 - **Economic growth of developing countries will make contribution to the framework for sustainable and balanced growth**
 - **An economic growth oriented development approach complements MDG efforts to reduce poverty and is different from other development approaches**
 - **The development agenda falls in line with the broad mandate and expertise of the G20, the premier**

Key Agendas for the Seoul Summit

- **Leaders will adopt the multi-year action plans to be prepared by the WG on development**
- **The G20 Paris (2011) and Mexico (2012) Summits must carry on the multi-year action plans on development → very important for the success of the development agenda proposed at the Seoul Summit**

Conclusion

- **We examined follow-up and new agendas of the Seoul Summit and provides some suggestions for the success of the Seoul meeting**
 - **First, it would be important that the Seoul Summit reaches consensus on follow-up agendas**
 - **Second, the Seoul Summit also needs to emphasize on the issues of emerging economies such as the establishment of a strong global financial safety nets and the economic development of developing economies**

Conclusion

- **Third, the Seoul Summit needs to emphasize on trade issues which will make substantial contribution to development**
- **Last but not least, leaders must note that the G20 faces challenges regarding legitimacy issues (representativeness and effectiveness), characteristics issues (forum for discussion or decision making body) and institutionalization issues (establish a secretariat or maintain the current Troika system), relationships with international organizations**